Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	CC Docket No. 95-72
End User Common Line	)	
Charges	)	

COMMENTS OF GTE

Gail L. Polivy
1850 M Street, N.W.
Suite 1200
Washington, D.C. 20036
(202) 463-5214

June 29, 1995

THEIR ATTORNEY

TABLE OF CONTENTS

PAGE

SUMMARY

The issues raised in this proceeding involving the application of subscriber line charges to ISDN services highlight the urgent need to revisit the appropriateness of many of the Commission's access rules. GTE urges the Commission to initiate a comprehensive review of its access rules, and in concert with the Joint Board, to revise the rules to recover all non-traffic sensitive costs on a flat rate basis from both end user and IXC customers. The Commission, working in cooperation with state regulators, can establish an open and genuinely competitive telecommunications environment without jeopardizing universal service.

GTE urges the Commission to design its SLC policy with sufficient flexibility to allow a reasonable range of SLC applications, to accommodate the varied market prices of ISDN in different locations. Such an approach would also be more likely to accommodate other new services and avoid numerous similar future proceedings. This is important for any near term action the Commission may take in this proceeding with respect to ISDN service, and is even more vital in any more comprehensive reassessment of policy toward SLCs in general.

Recognizing that a comprehensive proceeding will take time, GTE urges the Commission to maintain the *status quo* by continuing the suspension of enforcement action against LECs that are not in compliance with the application

of a SLC per-derived channel until completion of a broader proceeding that would consider the larger issues of non-traffic sensitive cost recovery for all local exchange carrier services and continuation of universal service within the context of a competitive interstate access market.

If the Commission decides to adopt an interim SLC application, and if it finds that a fixed formula for such application is necessary, GTE endorses the per-facility or per-service connection option. A per-facility charge will encourage the use of ISDN and will not stifle the initiation of other new services such as distance learning, remote health care and telecommuting. Adoption of the per-facility approach would also be administratively simple and consistent with the Commission's past practice of average SLCs.

Application of SLCs on a per-derived channel basis would cause a huge increase in price for ISDN services, contrary to the public interest. Strict application of SLCs on a per-derived channel basis would seriously impede deployment of ISDN, would delay the development of the NII and would be contrary to the Commission's statutory obligation to promote new services.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

RECEIVED
JUN 29 1995
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of	)	
	)	CC Docket No. 95-72
End User Common Line	)	
Charges	)	

COMMENTS OF GTE

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE") responds to the FCC's Notice of Proposed Rulemaking (the "NPRM" or "Notice")[1], seeking comment on the application of End User Common Line Charges (referred to as Subscriber Line Charges, or "SLCs") to local loops used with Integrated Services Digital Network ("ISDN") and other services that permit the provision of multiple voice-grade-equivalent channels to a customer over a single facility.

BACKGROUND

On January 11, 1995, the Commission released an Order on Reconsideration that affirmed a NYNEX tariff rejection and clarified the Commission's rules with respect to application of EUCL charges to ISDN services.[2] Specifically, the Commission affirmed the Bureau's interpretation that

---

[1] In the Matter of End User Common Line Charges, Notice of Proposed Rulemaking, CC Docket No. 95-72, FCC 95-212, released May 30, 1995.

[2] *In the Matter of NYNEX Telephone Companies Revisions to Tariff F.C.C. No. 1, Transmittal No. 116, Order on Reconsideration ("Reconsideration*

"a separate SLC should continue to be applied for each derived channel on a multichannel facility that is used by a customer,"[3] but recognized that the issues raised by the NYNEX tariff filing were complex and "would best be addressed in the context of a rulemaking proceeding."[4]

In a Public Notice released May 30, 1995, the Bureau announced that it would not enforce the SLC interpretation upheld in the *Reconsideration Order* pending completion of this rulemaking proceeding.[5] This maintains the *status quo* allowing LECs that charge something other than a SLC per-derived channel to continue to charge customers in the same manner while the Commission is examining application of SLCs to ISDN service.

DISCUSSION

I. THE COMMISSION SHOULD ADDRESS THE APPLICATION OF SUBSCRIBER LINE CHARGES TO ISDN SERVICES IN THE CONTEXT OF A BROADER ACCESS PROCEEDING.

The instant NPRM, in conjunction with the accompanying *Enforcement Moratorium Notice*, provides the Commission with an opportunity to promote its

---

Order"), 10 FCC Rcd 2247 (1995), *aff'g, Memorandum Opinion and Order, NYNEX Telephone Companies Revisions to Tariff F.C.C. No. 1*, 7 FCC Rcd 7938 (Com. Car. Bur. 1992).

3 *Reconsideration Order* at ¶2.

4 *Id.* at ¶26.

5 Public Notice, DA 95-1168, May 30, 1995. ("*Enforcement Moratorium Notice*")

statutory obligation to promote the development of new services[6] and to accelerate the deployment of the National Information Infrastructure ("NII"). While GTE agrees that there is an urgent need to revisit the appropriateness of many of the Commission's rules that were created over a decade ago "predicated on an exclusively monopoly market structure,"[7] such broader consideration must encompass virtually all of the Commission's rules and involve a Federal-State Joint Board.[8] This process, however, will undoubtedly take several years to complete.

In the interest of a more expeditious resolution, the Commission has two procedural avenues available that will prevent adverse impact on ISDN services and the associated postponement in development of the NII. First, the Commission could limit the instant NPRM by considering only ISDN Basic Rate Interface ("BRI") and Primary Rate Interface ("PRI") services.[9] While this approach could allow for a speedier resolution that would encourage consumers to use ISDN services, uncertainty would remain because of likely further changes in a future decision. Alternatively, the Commission could maintain the

---

6 47 U.S.C. §151(a).

7 *Notice* at ¶19.

8 47 U.S.C §410. In Section VI. *infra*, GTE discusses its views of the actions necessary within the context of a comprehensive review of the access charge rules.

9 *See Notice* at ¶3 and n.7, 8 for a description of ISDN BRI and PRI services.

status quo by continuing the suspension of enforcement action against LECs that are not in compliance with the *Reconsideration Order*'s clarification until completion of a broader proceeding that would consider the larger issues of non-traffic sensitive ("NTS") cost recovery for all local exchange carrier services and continuation of universal service within the context of a competitive interstate access market.

GTE recommends adoption of the second approach since it would: (i) conserve Commission and industry resources; (ii) avoid the possibility that consumers would experience two changes -- from the current method to an "interim" method to a "final" approach; and (iii) allow for full consideration of all inter-related issues in one proceeding. In fact, the *Notice* (at ¶1) specifically recognizes the need to consider application of SLCs for ISDN services "in the broader context of competitive developments in the interstate access market, and the resulting pressure to reduce unnecessary support flows in order to ensure fair competition and preserve universal service." If, however, the Commission proceeds with the instant NPRM, GTE offers comment *infra* on the SLC application options proposed in the *Notice*.

II. THE APPLICATION OF SLCS SHOULD BECOME MORE FLEXIBLE TO RECOGNIZE THE INEVITABLE VARIATION IN THE PRICES OF LOCAL EXCHANGE SERVICES.

GTE urges the Commission to design its policy toward the application of SLCs with sufficient flexibility to recognize the inevitable variation in the prices of local exchange services. This is important for any near term action the Commission may take in this proceeding with respect to ISDN service, and is even more vital in any more comprehensive reassessment of policy toward SLCs in general.

By adopting the SLC a decade ago, the Commission was able to move rates toward market levels in two important ways. First, it reduced the level of the usage-based CCL charge that would otherwise be required to recover the interstate allocation of common line costs. Second, it effectively raised the flat rate that end users paid for their local exchange service -- the sum of the local monthly charge and the interstate SLC.

However, no attempt was made to determine the exact rate level that would be appropriate for each local service or for each locale. The SLC program was based on an arbitrary separations-derived interstate allocation of embedded cost, rather than on economic costs. There was no consideration of the characteristics of any particular service or market area; rather, nationwide averages were used. And, unlike a market rate-setting process, it took no account of demand characteristics. Nonetheless, the SLC created a great improvement in economic efficiency. Given the starting point of local residence rates as they existed in 1984, adding $3.50 across the board to all these rates moved them unambiguously closer to market levels.

GTE believes that SLCs are still contributing to efficient cost recovery. Indeed, further improvements are possible by raising the SLC cap from its current level as part of a comprehensive review of common line recovery policy. However, the world has changed dramatically in ten years, and it is no longer possible to say unambiguously that an averaged, across-the-board increase in local rates will move them closer to economically efficient price levels. Some states have taken steps to rebalance rates, bringing their local rates closer to likely competitive market levels.[10] Further, as the record in a recent *D.80-286* proceeding makes clear, both the cost and price of local service can vary widely from one serving area to another.[11] To the extent that the SLC price level is averaged across all local markets, that level may be too low in some areas, and too high in others. New technology may also affect the cost of exchange carriers' local service over the next few years. At the same time, new suppliers -- using a variety of different technologies -- are entering the local market, providing services to selected customer sets and in selected market areas.

In this rapidly changing environment, it will not be possible for the Commission to know what the "true" market rate for a given local service should be. Given this uncertainty, it is no longer clear that the application of more SLCs

---

10 GTE recently filed a rate restructure proposal in Virginia that would reduce the prices for services such as intraLATA toll and intrastate access, and increase local service rates. If approved, residential rates could change from $6 per month to as much as $18. *See Application of GTE South Incorporated, For Revisions to its Local Exchange, Access and IntraLATA Long Distance Rates,* Commonwealth of Virginia Document Control No. 950610242, filed June 9, 1995.

11 *Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board,* Notice of Inquiry, CC Docket No. 80-286 ("*D. 80-286*"), 9 FCC Rcd 7404 (1994). The cost of providing local service can vary widely even within the same study area. For example, GTE's Florida serving territory includes the Tampa and St. Petersburg metropolitan areas, as well as sparsely populated agricultural regions. The price of local residential service within GTE's serving territories varies from as little as $6.50 per month in rural Missouri to as much as $17.25 in Los Angeles.

to some services will unambiguously move rates in the right direction. Yet there is still an important role for SLCs to play, and, given the continued existence of a usage-based CCL charge, a further SLC increase could lead to improvements in efficiency. However, in order for these potential gains to be realized, future common line recovery policy must move away from uniform, across-the-board applications, and toward a more flexible approach which recognizes that the appropriate total price that end users should pay (the sum of the local rate and the interstate SLC) will vary across services and market areas. This could take the form of a cap for SLC rates, with reasonable flexibility to vary the rate within limits set by the Commission, and under specified circumstances.

The problem examined in this proceeding -- applying SLCs to ISDN service -- is an extreme example of this more general problem. In GTE's opinion, the multiline SLC has never created an unambiguous improvement in efficiency to the same degree as the single line SLC. The difference between $3.50 cap for single line and the $6.00 cap for multiline SLCs was never justified by a difference in cost.[12] In fact, the average cost of multiline services is generally lower than that of single line serving arrangements.[13] Further, the local

---

12 *See Notice* at ¶29. Instead, the difference between the two caps was part of the policy balance struck by the Commission to satisfy political concerns raised by the SLC program.

13 This is true, first, because loops in multiline arrangements are shorter on average, and more likely to be provided in high density areas. Further, even before the introduction of derived channel services, there were economies associated with delivering a large number of conventional loops to a single customer location.

monthly charge paid by business customers is usually higher than the residence rate; in many places the local charge, before the application of any SLC, fully covers the cost of service. Therefore, the multiline SLC, even before the introduction of ISDN, has created an additional implicit support flow from multiline business customers to residence customers.

New service technology, such as ISDN, is now making it possible to provide greater bandwidth to multiline customers without a proportional increase in cost. Uniform, across-the-board application of a SLC per-derived channel will drive the effective price of ISDN to end users above market levels in many locations. Rather than improve the efficiency of local service rates, as the SLC was intended to do, it will introduce a new price distortion. As explained *supra,* this will discourage the adoption of ISDN and other new services; it will create an unjustified support burden for those customers who do take the service; and, because demand for new services will be curtailed, it will not even provide the intended increased SLC revenues.

The Commission could attempt to address application of SLCs to ISDN by developing a new, uniform rule. The *Notice* reviews (at ¶¶24-34) a number of possible "equivalency" formulas, under which an ISDN PRI would be counted as one, two, six, or some other fixed number of "lines." However, it is unlikely that any such uniform rule would arrive at a reasonable number of SLCs for all ISDN arrangements in all markets. The market price of ISDN service, like that of other local services, will vary widely. Further, ISDN will be available from different local service suppliers, and ISDN customers are relatively sophisticated. Thus, the demand for LEC ISDN service will be relatively price-elastic and any price distortion introduced by an average, across-the-board SLC application will lead to significant distortions in demand. It is also not clear that any simple equivalency the Commission may develop for ISDN will be appropriate for other new derived channel services. This means that the Commission may be drawn repeatedly into this exercise as new services with different characteristics emerge.

For these reasons, if the Commission decides to establish a new rule for the application of SLCs to ISDN in this proceeding, GTE urges adoption of a rule that is flexible enough to allow a reasonable range of SLC applications, to accommodate the varied market prices of ISDN in different locations. Such an approach would also be more likely to accommodate other new services and avoid numerous similar future proceedings.

III. IF THE COMMISSION CHOOSES TO ADOPT A FIXED FORMULA FOR ISDN SLC APPLICATIONS, SLCS SHOULD BE APPLIED ON A PER-FACILITY, OR PER-SERVICE CONNECTION, BASIS.

If the Commission decides, nonetheless, to adopt an interim SLC application, and finds that a fixed formula for such application is necessary, then GTE endorses the per-facility or per-service connection option.[14]

---

[14] Alternatively, GTE endorses the proposed variation of the per-facility approach that would apply a single SLC for BRI service and two SLCs for PRI service.

GTE agrees with the Commission's observation (*Notice* at ¶24) that a per-facility option would "encourage the use of derived channel technology" and "facilitate improved access to the National Information Infrastructure." ISDN service is an "efficient, flexible and useful service" that "provides the capability for high quality digital transmission of voice, data, and video."[15] ISDN service "affords consumers and businessmen alike high-quality digital access to the Internet, a multiplicity of database services, videophone capabilities, digital data at a range of speeds, and a burgeoning host of voice and data features."[16] Adoption of the per-facility approach would also be administratively simple and consistent with the Commission's past practice of average SLCs.

Further, the concern (*Notice* at ¶26) that business customers using ISDN PRI service would effectively pay a smaller SLC per-derived channel misses the mark since it only considers one portion of common line recovery, instead of total common line recovery. Business customers already pay a higher SLC than residence customers, based on a purely arbitrary rate structure.[17] Additionally, since large business customers that use ISDN PRI service do so because they have higher usage levels, they pay far more in CCL charges (although indirectly

---

15 Emergency Petition for Waiver of the GTE Telephone Companies of Section 69.104 of the Commission's Rules in Connection with ISDN Services ("*GTE Waiver*"), March 2, 1995, at 4.

16 Emergency Petition for Waiver of the Bell Atlantic Telephone Companies of Section 69.104 of the Commission's Rules in Connection with ISDN Services ("*Bell Atlantic Waiver*"), February 10, 1995, at 5.

17 *See Notice* at ¶29.

through their toll rates). Thus, the total amount of common line recovery from these large business customers matches or exceeds that paid by residential customers.[18]

To allay concern (*Notice* at ¶25) that adoption of a reduced SLC application would be "inconsistent with the general objective of reducing the untargeted support flows intrinsic to the existing CCL charge," GTE endorses an increase in the current cap of $3.50 for residence and single line business and $6.00 for multiline business customers.[19] However, it is not clear whether determining the appropriate level of SLCs and the timing of implementation would involve action by a Joint Board. Consideration of this subject should not be focused only on SLCs, but rather on a broad examination of all of the Commission's access regulations, as discussed *infra*.[20]

---

18 The *Notice* (at ¶26) is wrong to suggest that local exchange carriers "typically run two copper pairs to each residence." GTE dedicates distribution facilities to a particular residence, and often two pairs are provided, to meet demand for a second line and to provide for replacement of defective lines. However, two lines of feeder plant are not routinely dedicated to a particular residence. Feeder is provided to meet total growth demand of a serving area, and, with limited exceptions for areas where high customer "churn" occurs (*e.g.*, apartment complexes) feeder lines are connected to distribution facilities only when a line is needed, whether it be the first or second line at the residence.

19 For example, had the original implementation of SLC charges included an automatic increase in the cap linked to inflation, even a modest 3% inflation rate would have resulted in a cap of $4.18 for the residential SLC and $7.16 for the multiline SLC by now.

20 Unless, of course, the Commission adopts GTE's recommendation and takes no action in the instant NPRM while maintaining the *status quo* until a broad access reform proceeding in which the Joint Board would participate can be completed.

The Commission could adopt a per-facility SLC application by determining that not only does the public interest require a broader interpretation of the Part 36 definition of a "line" and "channel," but that changed circumstances also require adoption of a more contemporary use of those terms. Instead of focusing on a literal singular reading of the word "channel" as it was commonly used in 1984, the Commission should recognize that since the original creation of the access charge rules many services have been developed that utilize greater bandwidth than available with a traditional voice grade copper circuit.[21] That is, for SLC application purposes, the word "channel" should not be used to mean the amount of bandwidth normally associated with a voice grade communication, but rather be read to mean a connection between two points that uses whatever amount of bandwidth is necessary for the type of communication being provided, either voice or data. Adoption of this revised interpretation would obviate the need for a Joint Board proceeding[22] since neither the definition nor the separations use of the definition would change. Rather a more contemporary use of the words within the definition would be adopted only for the purpose of rate application.[23]

---

21 Even so, from the perspective of the user, a single service is being used.

22 *See Notice* at ¶36.

23 Under price cap regulation, there is no direct linkage between prices in an interstate tariff and the price that would result from dividing separations costs by separations units.

IV. APPLICATION OF SLCS BASED ON A PER-DERIVED CHANNEL BASIS IS CONTRARY TO THE PUBLIC INTEREST.

Strict application of SLCs on a per-derived channel basis would seriously impede deployment of ISDN, would delay the development of the NII and would be contrary to the Commission's statutory obligation to promote new services. There is no dispute that ISDN serves as an enabler for a number of socially beneficial services such as distance learning, remote health care, and telecommuting. Application of SLCs on a per-derived channel basis would cause a huge increase in price for these ISDN services, contrary to the public interest.

In an earlier proceeding, GTE estimated that "as many as 25% of existing [ISDN] customers would terminate service" and that "future demand would be reduced by approximately one-third," including "as much as a 60% reduction in demand for residential ISDN BRI service."[24] Bell Atlantic predicted a similar impact. Bell Atlantic anticipated that strict application of a SLC per-derived channel would cause 10-25% of current ISDN customers to terminate service, and to reduce future demand from 25-35% for business customers and up to 60% for residence customers.[25]

The huge price impact associated with application of SLCs on a per-derived channel basis would discourage LEC deployment of derived channel

---

24 *GTE Waiver* at 3-4.

25 *Bell Atlantic Waiver* at 7-8.

services. Those few customers who did choose ISDN would be burdened by a heavy support flow to residence common line services.[26] Indeed, such action would create incentives for customers "to use competitors even when the LEC would be the most efficient access provider."[27]

The Commission's fear (*Notice* at ¶25) that abandoning a per-derived channel SLC application structure would lower SLC revenues and lead to higher CCL charges is misplaced. In the Price Cap proceeding,[28] the Commission has previously recognized that new services such as ISDN can "increase the value of common lines to customers, and thus the usage per-line."[29] Under the Commission's Price Cap rules, increased switched service usage tends to decrease the CCL rate level.[30] Additionally, GTE predicts that its total SLC

---

26 *See Notice* at n.33. Note that a support flow from ISDN users, through multiple SLCs, is no more economic than an equivalent amount of support generated by the CCL. However, it is not clear that applying multiple SLCs to ISDN would actually generate additional support, or reduce the CCL, given the likely demand response to an increase in the total amount of SLC charges.

27 *Notice* at ¶20.

28 *Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order*, CC Docket No. 87-313, *Notice of Proposed Rule Making*, 2 FCC Rcd 5208, (1987), *Second Report and Order, Report and Order and Second Further Notice of Proposed Rulemaking*, 4 FCC Rcd 2873 (1989), and Erratum, 4 FCC Rcd 3379 (1989), *Second Report and Order*, 5 FCC Rcd 6786 (1990), and *Erratum*, 5 FCC Rcd 7664 (1990) ("*LEC Price Cap Order*"), *modified on recon.*, 6 FCC Rcd 2637 (1991), *aff'd sub nom. National Rural Telecom Association v. FCC*, 988 F.2d 174 (D.C. Cir. 1993).

29 *LEC Price Cap Order,* 5 FCC Rcd at 6794 (1990).

30 *See* 47 C.F.R. §61.46(d).

revenues using a per-facility approach would be little different from the amount obtained from the dramatically lowered ISDN customer base that GTE expects would result from strict application of a SLC per-derived channel.

GTE originally estimated[31] the theoretical difference in its CCL due to GTE's use of the alternative per-facility approach[32] as "less than two-tenths of one percent" under the most ideal circumstances. That is, the difference in the CCL rate could be as large as two-tenths of one percent only if the increased total price for ISDN did not cause *any* existing or potential future customers to choose a different service, thereby making the maximum possible additional SLC revenues available.[33] However, under the Price Cap regulatory scheme, there is no direct mathematical relationship between reduced SLC revenues and higher CCL prices.[34] In fact, GTE has calculated the impact on its CCL price caused by

---

31 *GTE Waiver* at 8.

32 *Notice* at ¶24.

33 Every customer that did not use ISDN service because of the price increase associated with a per-channel SLC application would lessen the theoretical impact on the level of the CCL. On the other hand, use of a per-channel SLC structure could decrease the number of switched minutes used in calculating the CCL price if many large customers that use ISDN PRI service under a per-facility rate application were to abandon switched services entirely in favor of dedicated digital services.

34 The CCL price level chosen by the LEC can only be increased if the Price Cap Index ("PCI") for the Common Line basket is not exceeded. *LEC Price Cap Order*, 5 FCC Rcd at 6814 (1990). In the majority of states GTE serves, the CCL price cannot be increased to any appreciable degree since the current price is very close to the maximum allowable price.

adding the maximum theoretical amount of additional SLC revenues from application of a SLC per-derived channel for several study areas. When the calculated SLC exceeds the $6 cap, as is the case in most of GTE's areas, the CCL price did not change because the Price Cap formula[35] does not produce any change in the PCI. When the calculated SLC is below the $6 cap, there is a small change in the PCI that could allow, but not require, an increase in the terminating CCL in the fifth or sixth decimal place. Accordingly, GTE submits that there is no reason to expect that a plan which would allow LECs to apply a reduced number of SLCs (*i.e.*, reduced from the current interpretation requiring a SLC per-derived channel) to ISDN and other derived channel service arrangements would actually create any appreciable "shortfall" of SLC revenues that would be offset by increases in the CCL rate level.

For these reasons, GTE strenuously opposes applying a SLC on a per-derived channel for ISDN services.

V. APPLICATION OF SLCS BASED ON A "COST RATIO" OR OTHER INTERMEDIATE OPTION SHOULD NOT BE ADOPTED.

The *Notice* (at ¶27) proposes the option of charging SLCs "based on the ratio of the average LEC cost of providing a derived channel service, including line or trunk cards, to the average LEC cost of providing an ordinary local loop or T-1 facility." This approach would be administratively burdensome and would

---

[35] *See* n.30.

result in inconsistent and discriminatory application of SLCs. GTE urges that it not be considered further.

Calculation of a "cost ratio" would be needlessly complex. Separations studies could not be used to compute the ISDN "cost" since neither ISDN loops nor ISDN line card equipment are separately categorized.[36] The Commission would need to review dozens of filings and determine a reasonably uniform costing approach based on an engineering cost model. Further, unless a similar modeling approach also were used to compute the cost of an average residential loop, the ratio of separations-derived residence loop costs to the ISDN cost obtained from an engineering model would produce an apples-to-oranges comparison.[37] Moreover, including an ISDN line card in the calculation of total ISDN costs but not including a line card cost in the total for a normal residence or business service would also serve to make the "cost ratio" a meaningless number.

Basing SLC application on a cost ratio would also result in discriminatory application of SLCs to only some business customers. If ISDN customers were

---

36 Further, in GTE's opinion, it would be a waste of resources to conduct a lengthy Joint Board process aimed at modifying separations to obtain information to be used strictly for application of SLCs. Price Cap exchange carriers would not use the embedded cost allocation information obtained through separations for pricing or other purposes.

37 *See Notice* at ¶27. Further, as the *Notice* (at ¶29) observes, line cards are treated as switching for Part 69 cost allocation purposes, even though they are NTS plant. Thus, it is debatable whether line cards should be included in a "cost ratio" exercise at all since the SLC charge is intended to recover only loop costs.

singled out for a "cost ratio" approach, they would be the only customer set where a "cost ratio" standard was used as the basis for application of SLCs.[38] If a "cost ratio" were used for ISDN customers, other business customers would be justified in seeking similar treatment. In GTE's opinion, that would lead to business SLCs that would be lower than residence SLCs. This would occur since studies have shown that business loops are typically shorter than residence loops, and that most business loops have a lower per unit cost since they exist in urban areas. Thus, on a "cost ratio" basis, non-ISDN business customers would likely pay a smaller SLC than residence customers.

The *Notice* (at ¶35) requests comment on whether "new rules for the application of SLCs for ISDN and similar derived channel services should apply to all local loops provisioned . . . through the use of derived channel technology." GTE opposes adoption of this approach, and especially if it were in conjunction with the "cost ratio" option. Use of a provisioning-specific approach for the application of SLCs would create a recordkeeping and cost study nightmare, adding unnecessary costs for no public benefit. It would also create enormous customer confusion, since different SLC rate levels could apply to the same service provided to the same customer. SLC application should depend on the service provided to the customer, rather than on the specific facility used to provide it. While it is true that service costs will vary across services, customers,

---

38 As the *Notice* (at ¶29) recognizes, costs were not used as the basis for establishing the price difference between residence and business customers.

and market areas, it is not reasonable for the Commission to attempt to capture these differences by extending, and making more elaborate, the existing, averaged SLC structure. As discussed *supra*, what is needed is flexibility within the SLC structure to accommodate difference in the market prices of local services.

The *Notice* (at ¶¶30, 33-34) also seeks comment on three other SLC application options: (i) a reduced SLC amount approach, (ii) imposition of a reduced (with respect to the per-derived channel structure) number of SLCs accompanied by a small increase in all SLC rates, and (iii) allowing LECs to voluntarily reduce the number of SLCs charged as long as the "shortfall" in SLC revenues was borne by LEC shareholders.

An increase in all SLC rates likely would require Joint Board action. The Commission's resources would be better utilized in a more comprehensive examination of NTS recovery that would also involve the Joint Board, than in a narrow and temporary proceeding. As discussed *supra,* GTE endorses adoption of measures that would per-mit LECs to vary the number of SLCs, or the SLC rate, when market conditions warrant. However, accompanying such an allowance with a mandate that LECs adjust the CCL to match a level that would have existed if all SLCs had been charged is not reasonable. This aspect of the proposal is based on the faulty assumption that the ISDN customer base would be the same regardless of the number of SLCs charged. In fact, charging a SLC per-derived channel would lead to a reduced number of ISDN customers. Therefore, an option which would permit a reduced number of SLCs to be charged (within a reasonable range) would not lead to an appreciable difference in CCL revenues.

VI. COMMISSION ACTION ADDRESSING THE RECOVERY OF ALL NON-TRAFFIC SENSITIVE COSTS AND THE REMOVAL OF UNIVERSAL SERVICE SUBSIDIES FROM EXCHANGE CARRIER PRICES IS URGENTLY NEEDED.

The *Notice* (at ¶36) invites comment "on the need for additional changes to the way carriers can recover the interstate assignment of local loop costs and local switching or other costs that the parties view as NTS." GTE recommends the Commission revise its rules to allow all NTS costs to be recovered on a flat basis rather than a usage basis.

The current recovery of NTS costs on a usage sensitive basis cannot be sustained in a competitive interstate access market. The *Notice* (at ¶20) accurately describes the competitive distortion that results from the current rules. This effect has been known for years.[39] While replacing the CCL with a flat charge would address much of the problem, the Commission should also allow recovery of all NTS costs, such as central office line card costs, on a flat basis.[40] Commission action is long overdue and can be delayed no longer.

---

39 *See for example, Federal Perspectives on Access Charge Reform, A Staff Analysis*, April 30, 1993 at 60: "Efficient cost recovery, therefore, would require that subscribers pay for the loop facilities through nontraffic-sensitive charges, *i.e.*, flat monthly charges that are unaffected by whether or not the subscribers actually make or receive interstate calls."

40 For example, GTE's state ISDN tariffed offerings have flat monthly rates to recover both the loop and central office line card, and usage charges for recovery of switching costs.

The Commission should initiate a comprehensive review of its access charge rules, and in concert with the Joint Board, revise its rules to recover all NTS costs on a flat rate basis from both end users and IXC customers.[41] LECs should be permitted to charge an interstate SLC that, when combined with the intrastate price for a local service, does not result in a total price that exceeds the market rate in an area. This could mean a very small SLC in low cost areas, and a higher SLC in high cost areas. Use of this structure would treat all similarly situated customers in the geographic area in the same manner, and of course, would be subject to an overall limit on NTS revenues. This approach to longer-term common line recovery policy would be a logical extension of the flexible approach toward SLC application to ISDN service that GTE proposes *supra*.

However, action on NTS costs alone will not be sufficient "to assure fair competition and preserve universal service."[42] The Commission also must act in concert with state regulatory agencies to reduce other support flows not only

---

41 Not only would recovery of NTS costs on a flat rate basis eliminate the competitive distortion present in today's access charge structure, it would eliminate the need for continual *ad hoc* adjustments and complaint activity due to the introduction of new services that were not imagined when the original structure was devised. *See, e.g., AT&T Communications Revisions to Tariff F.C.C. No. 2* (*AT&T ReadyLine Service*), 2 FCC Rcd 78 (1986), *recon.*, 2 FCC Rcd 5939 (1987) (billing system adjustments to apply terminating CCL on open end for 800 calls); *AT&T Corp. v. GTE North, Inc. et al.,* File No. E-95-30 (complaint regarding CCL charges for calls involving 3-way calling and other CLASS services).

42 *Notice* at ¶1.